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Next 1 Page(s) In Document Exempt

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IP-157

31 August 1950

MEMORANDUM FOR:

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ATTENTION :

SUBJECT : East Berlin Currency Panic

REFERENCES :

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1. Case reference (b) was a request for information on subject of this memorandum, but it is understood that more information is available in [] and it is requested that this information be made available to this office.

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2. Specifically, this office has a requirement for detailed information concerning the currency panic which took place in East Berlin last spring. This information should include:

a. The political and economic conditions immediately preceding and during the panic which had a bearing on the panic.

b. The immediate causes of the panic.

c. What actually happened during the panic.
(Newspaper accounts).

d. An assessment of the political effects of the panic in respect of the Soviet zone.

3. A deadline of September 7 has been established for this information. If it is possible within this time limit, it is requested that your report be in writing.

4. For your information, [] of this office on [] is familiar with this request.

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7 September 1950

THE CURRENCY PANIC IN EAST BERLIN**1. Political and Economic Conditions Immediately Prior to the Panic**

During March, 1950, the time of the East Berlin financial panic, the German Democratic Republic (DDR) was far in arrears in its reparations shipments to the USSR, as well as tardy in its shipments of goods to Western Germany under terms of the Interzonal Trade Agreement. DDR trade authorities, during the first two weeks of March, were pressing strongly for renewal of negotiations for the elimination of the Allied-imposed embargo on steel shipments to the East, then in effect. Subsequent information has indicated that the East Zone was experiencing an acute shortage of steel during the first quarter of 1950.

The political situation was highlighted by a continuing emphasis on the National Front campaign for the political conquest of West Germany and West Berlin and a purging from the bourgeois parties of all leaders uncooperative with the SED-dominated regime.

Although the economic factors mentioned above indicate a generally unsatisfactory state of affairs in the Soviet Zone economy in March, 1950, there is little evidence that this general situation was the direct cause of the brief financial panic in East Berlin during the third week of that month.

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A. The Immediate Cause of the PanicImmediately prior to the panic,

indicated a general expectation of a currency reform on or about 25 March 1950. Preliminary rumors of the impending currency conversion alleged that the GDR was planning to place stamps on all outstanding currency, and to reissue a new currency on the basis of ^(for each) one up to 70 Marks. The remainder was to be deposited in bank accounts, the owners being permitted to draw on accounts after an investigation for possible black-market activities. These rumors soon became widespread and caused East Berlin banking authorities to issue flat denials of any impending conversion and to accuse West Berlin exchange office bankers and the West Berlin Magistrat of irresponsible speculative maneuvering.

C. The Facts of the Panic

From 10 March to 16 March, the East Mark showed a gradual weakening, the East Mark rate as quoted in the currency exchange offices of West Berlin plummeting sharply from 1 DM West, 7.40 DM East on 16 March to 1 DM West, 9 DM East on 18 March. The atmosphere on Friday, Saturday, March 17-18, was played up by both East and West Berlin papers as "panicky." The facts of the situation may be briefly summarized as follows: (1) Various people were unloading large sums of East Marks. The New York Times reported that ^{large} groups of people, numbering from 300 to 400, appeared before currency exchange offices seeking

to exchange West Marks for East Marks. (2) Not until the rate was considered favorable by West sector residents for covering their possible East sector purchases did West Mark offerings climb to approach a closer balance with East Mark offerings. As a result of purchases made by West Berliners in the East sector, the East Mark rallied during the period 20 March-22 March. (3) On 22 March, the East Mark had returned to the 16 March level, namely 1 DM West... 7.40 - 7.60 DM East.

Beyond question, the stores (especially the MD stores) in the downtown section of the East sector were favored with a tremendous rush of purchasers from West Berlin on Friday, Saturday, and Monday, the 17th, 18th and 20th of March. Stockings, liquor, furniture, and various household items were among the goods West Berliners found it advantageous to buy in MD stores. The increase in sales of merchandise in East sector stores was further augmented by residents of the East zone and East sector who sought to turn their East Marks into wares of various kinds against possible future lapses of the currency.

B. Assessment of Political Effect of the Panic

Although the MD shops were favored by this sudden rush of business at the expense of West Berlin merchants, all Soviet-licensed newspapers during the period reflected the embarrassment of the Soviet authorities over the East Mark's fall. The reduction of MD store prices on 27 March may have been instituted in an attempt to direct popular attention away from this decline in currency values.

When the removed conversion date passed without incident, the East Mark had risen to its former level relative to the East Mark. Since that date, the East Mark has fluctuated between 5.50 - 7 EM East & 1 EM West.